

# Indian Banking Industry since 1949 to 2019 - A Study

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## Abstract

The present work finds out that tangibility and assurance as the foremost dimensions of service quality with their key influence on the customers. But, both the parameters of responsiveness and empathy show a lower level of satisfaction among the customers. It is suggested to the banking sector that apart from ensuring the trust of customers, it should improve their operations in providing highly advanced technological services to the customers with easy access and instant delivery features. Thus, by providing enhanced quality in the banking services, the banks would be able to create a whole gamut of satisfied customers which would ultimately lead to further the efficiency and performance in the banking landscape. Banking sector, one of the core sectors of service economy is fiercely competitive. Post liberalization the competition has only increased. Service quality measure is based on modified version of SERVQUAL as proposed by which involve five dimensions of service quality namely Reliability, Responsiveness, Empathy, Assurance and Tangibles. The purpose of this study is to review the literature survey on service quality in banking sector. The customers expect a high level of service quality factors, which influences the performance of bank.

*Keywords: Service Quality, Customer Loyalty, Customer Satisfaction. Indian banks*

## Introduction

The financial sector reforms in India have made tremendous changes in the competitiveness across all industrial segments in India. The entry of foreign banks into the Indian banking sector further boosted the level of competition. In the present day banking, only efficient and effective units can survive and expand their market share. In the existing Indian banking landscape customers play a vital role.

It is the responsibility of banks to satisfy the customers in order to retain them for their very survival and success. Customer's expectations and customer satisfaction and service quality are highly related. The banks should be able to minimize and eliminate the gap between perceived service quality of customers and the actual service provided. The present paper evaluates the level of service quality in commercial bank in Kerala. The study also attempt to ascertain the dimensions of service quality in banks In this modern era of global competition, factors such as customer expectation and customer satisfaction vitally contributes towards the success of any industry.

Customer expectation is the perceived value that the customer anticipates out of a service. Any industry fulfilling customer expectation wins the mind of the customers which lead to customer satisfaction and then to customer

delight. In any situation, a failure meeting the expectation of the customer will affect the overall growth and survival of the business in the market. In order to withstand the global competition and market dynamism, it is essential for the business to scrutinize all the factors which leads to customer satisfaction, thus enabling the business to point out the areas of weakness. Identifying these key elements would facilitate decisions of the management in this regard so as to improve the business functions in such a way that it leads to customer satisfaction and overall growth of the industry. In this context, this paper examines the level of customer satisfaction by measuring service quality among the customers of public and private sector banks.

Increased competition, highly educated consumers, and increase in standard of living are forcing many businesses to review their customer service strategy. Many business firms are channeling more efforts to retain existing customers rather than to acquire new ones since the cost of acquiring new customer is greater than cost of retaining existing customers. There is enough evidence that demonstrates the strategic benefits of quality in contributing to market share and return on investment.

Maximizing customer satisfaction through quality customer service has been described as the ultimate weapon by Davidow and Vital (1989). According to them, in all industries, when competitors are roughly matched, those who stress on customer's service will win. In view of the above mentioned facts, an analysis of service quality perceptions from customer's point of view may be sound and interesting at this juncture. Such an analysis will provide banks, a quantitative estimate of their services being perceived with intricate details such as whether banks are meeting the expectations of the customers or not. Measuring service quality in the service sector particularly in the banking sector is more difficult than measuring the quality of manufactured goods. The service sector as a whole is very heterogeneous and what is heterogeneous may hold true for one service and may not hold for another service sector. Each bank is having a variety of services. Due to this differentiation, services in this industry could not be standardized, moreover these services are intangible in nature which could not be compared or seen. The concept of customer satisfaction and service quality is interrelated with each other. Moreover satisfaction of customer depends upon service quality and service quality is increasingly offered as a strategy by marketers to position themselves more effectively in the market place. Due to the advent of e-banking, quality of service has been improved a lot as compared to traditional banking services. Internet banking, Mobile banking, automated teller machine, electronic fund transfer has totally changed the way of providing services by the banks.

### **Objective:**

This paper seeks

1. To evaluate the perceived service quality in commercial banks.
2. To ascertain the dimensions of service quality in banks.
3. To offer suggestions to improve the service quality in banks.

## Current Banking Sector picture of India

The banking system in India is significantly different from that of other Asian nations because of the country's unique geographic, social and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income which are marked among its regions. There are high levels of illiteracy among a large percentage of its population, but at the same time, the country has a large reservoir of managerial and technologically advanced talent. Between about 30-35% of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centres. The country's economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of growth-led exports rather than the 'export-led growth' of other Asian economies, with emphasis on self-reliance through import substitution. These features are reflected in the structure, size, and diversity of the country's banking and financial sector. The banking system has had to serve the goals of economic policies enunciated in the successive five-year development plans, particularly concerning equitable income distribution, balanced regional economic growth, and the reduction and elimination of private sector monopolies in trade and industry. In order to serve as an instrument of state policy, the banking industry was subjected to various nationalization schemes in different phases (1955, 1969, and 1980).

As a result, banking remained internationally isolated (few Indian banks had presence abroad in international financial centres) because of preoccupation with domestic priorities, especially massive branch expansion and attracting more people to the system. Moreover, the sector has been assigned the role of providing support to other economic sectors such as agriculture, small-scale industries exports, and banking activities in the developed commercial centres (i.e., metro, urban, and a limited number of semi-urban centres). The banking system's international isolation was also due to strict branch licensing controls on foreign banks already operating in the country as well as entry restrictions facing new foreign banks. A criterion of reciprocity is required for any Indian bank to open an office abroad. These features have left the Indian banking sector with weaknesses and strengths. A big challenge facing Indian banks is how to attain operational efficiency suitable for modern financial intermediation, under the current ownership structure. On the other hand, it has been relatively easy for the public sector banks to recapitalize, given the increases in Non-Performing Assets (NPAs), as their government-dominated ownership structure has reduced the conflicts of interest that private banks would face.

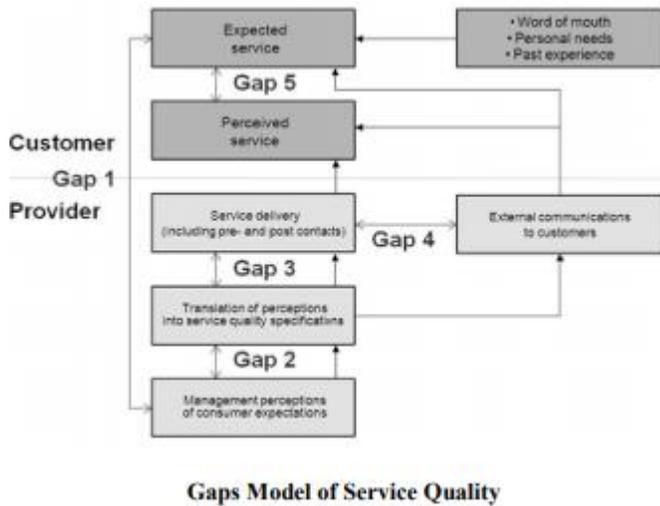
### SERVICE GAPS

Customers compare the service they "experience" with what they "expect" and when it does not match the expectation a gap arise.

### CUSTOMER GAP

The customer gap is the difference between customer expectations and perceptions. This gap arises when the management does not correctly perceive what the customers want. Customer expectations are standards or

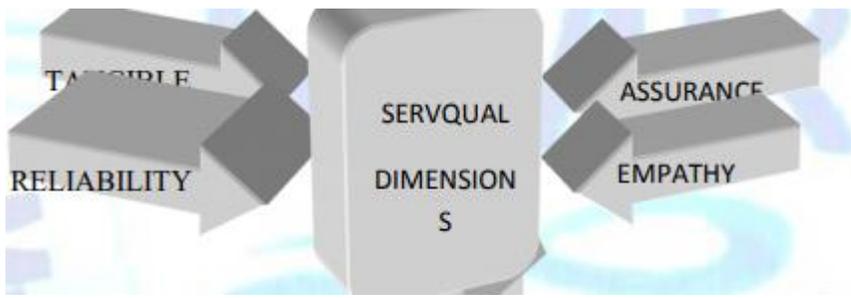
reference points that customers bring into the service experience, whereas customer perceptions are subjective assessment of actual service experiences. Closing the gap between what customers expect and what they perceive is critical to delivering quality service; it forms the basis for the gaps model.



### The SERVQUAL Approach

Among general the most popular model used for evaluation of service quality is SERVQUAL, a wellknown scale developed by (Parasuraman et al., 1985, 1988). The attributes of (Parasuraman et al., 1985) were tangibles, reliability, responsiveness, competency, courtesy, assurance, credibility, security, access and understanding. Parasuraman et al., 1988 later reduced these ten dimensions into five by using a factor analysis. Based on (Parasuraman et al 1988) conceptualization of service quality, the original SERVQUAL instrument included 22 items. The data on the 22 attributes were grouped into five dimensions.

1. Tangible: Well-maintained waiting cues, clear and easy bank statement and convenient location, faster operation with modern technology.
2. Reliability: Provide services when promised.
3. Responsiveness: Employees attention in solving problems, employees full service, promptly errors correction.
4. Assurance: Safe feeling for transaction, competitive loan rates, Interest Rate on saving and time deposit, helpful employees.
5. Empathy: Employees search for solution.



## FIVE DIMENSIONS OF SERVICE QUALITY

A. Tangibility: It means the things which are physically observed by the customers in the bank branch including large ATM network, personnel, physical facilities, materials and appearance. Able and skilled personnel, the quality of banking products and services, brochures and cards may represent tangibles. These qualities provide concrete cues for customers to evaluate the capability of the service provider.

B. Reliability: Reliability refers to the trust in company's ability of performing service in a proper way, such as acting according to promises and declarations. A reliable service means the banker is able to provide internet connection that is working at desired level throughout the day without significant failures; banker should not misuse the cardholder information and there should be frequent update of new technologies.

C. Responsiveness: It refers to service provider's willingness to help customers and provide prompt service. It can be measured by the amount of time needed to deal with customers' reported problems and the response duration once the customer filed a service request.

D. Assurance: Assurance is related to the knowledge and courtesy of employees and their ability to inspire trust and confidence. Banker may demonstrate assurance to customers by behaving courteously and by providing essential knowledge to guide customer's problems.

E. Empathy: It refers to the caring, individualized attention the service provider gives to its customers. Furthermore, customers in the bank may come from different social background and hence the banker could emphasize personalized attention on customers and understand specific needs of customers based on their requirements.

### Measuring service quality of Banks:

"Servqual" is a methodology designed to identify the gaps between what customers expected from an excellent product or service provider and what they perceive the service to be from their current suppliers of that product and service. The genetic questionnaire as used by Parasuraman et al (1988) has been modified and used here with 22 statements under 5 dimensions. The responses have been captured in 7 point Likert scale and gap score is calculated by deducting expectations from perception (E-P).

To close the customer gap, the gaps model suggests the four other gaps i.e. the provider gaps which occur within the service organization as follows:

**Provider GAP-1: Listening gap:** The listening gap is the difference between customer expectations of services and company understanding of those expectations. The primary reason that many firms do not meet customers' expectation is that the firms lack an accurate understanding of exactly what those expectations are.

**Provider GAP-2: Service Design & Standards Gap:** In this gap the difference between company understanding of customer expectations and the development of customer-driven service designs and standards. Customer driven standards are different from the conventional performance standards that companies establish for service in that they based on pivotal customer requirements that are visible to and measured by customers.

**Provider GAP-3: Service Performance Gap:** The service performance gap is the discrepancy between the development of customer- driven service standards and actual service performance by company employees. Even when guidelines exist for performing service well and treating customers correctly, high-quality service performance is not a certainty.

**Provider GAP-4: Communication Gap:** It is the difference between service delivery and the service providers' external communication. Promises made by a service company through its media advertising, sales force and communication may raise customer expectations, the standards against which customers evaluate service quality.

**Table1. Average Gap Score on tangibility:**

Parameters	Expectation (E)	Perception (P)	Gap (E-P)
modern equipments and size of ATM network	E1 = 6.832	P1 = 4.400	2.432
Location of branches and ATMs	E2 = 6.200	P2 = 4.232	1.968

**Table2. Average Gap Score on Reliability:**

Parameters	Expectation (E)	Perception (P)	Gap (E-P)
Assistance in e-banking and e services	E 4 = 5.592	P4 = 4.088	1.504
Value of time and commitment of on time	E5 =6.320	P5 = 3.704	2.616
Problem solving	E6 = 5.640	P6 = 2.512	3.128
Compatibility of bank website	E7 = 6.608	P7 = 3.704	2.904
Updated information and technology on website	E8 = 5.664	P8 = 3.184	2.480
No misuse of personal information	E9 = 6.152	P9 = 3.848	2.304
total	35.976	21.040	14.936
<b>Average Gap Score (Total of E-P / 3 )</b>	5.996	3.507	<b>2.489</b>

**Table3. Average Gap Score on Responsiveness:**

Parameters	Expectation (E)	Perception (P)	Gap (E-P)
Cooperation of employees	E10 = 6.264	P10 = 3.688	2.567
Knowledge and capacity of employees	E11 = 6.552	P11 = 2.544	4.008
Willingness and attitude of employees	E12 = 6.744	P12 = 3.424	3.320
Time bound and punctuality of employees	E13 = 5.104	P13 = 3.808	1.296
Total	24.664	13.464	11.200
<b>Average Gap Score (Total of E-P / 3 )</b>	6.166	3.366	<b>2.800</b>

**Table4. Average Gap Score on assurance:**

Parameters	Expectation (E)	Perception (P)	Gap (E-P)
Confidence level of employees	E14 = 6.528	P14 = 3.176	3.352
Safety of transactions	E15 = 5.296	P15 = 4.200	1.096
Knowledge of employees on different schemes	E16 = 5.136	P16 = 3.3976	1.160
Security of credit and debit card information	E17 = 5.176	P17 = 4.504	0.672
total	22.136	15.856	6.280
<b>Average Gap Score (Total of E-P / 3 )</b>	5.534	3.964	<b>1.570</b>

**Table5. Average Gap Score on Empathy:**

Parameters	Expectation (E)	Perception (P)	Gap (E-P)
Individual attention	E18 = 6.344	P18 = 3.312	3.032
Convenience of operating hour	E19 = 6.328	P19 = 4.880	1.448
Banking atmosphere	E20 = 6.520	P20 = 2.656	3.864
Interest and attitude to assist	E 21 = 6.312	P21 = 2.760	3.552
Ability to understand specific needs	E22 = 6.272	P22 = 1.968	4.304
total	31.776	15.576	16.200
<b>Average Gap Score (Total of E-P / 3 )</b>	6.355	3.115	<b>3.240</b>

The un-weighted score was calculated to normalize the total average score of each dimension.

**Table 6: Un-Weighted Score:**

Sl. No	Categories	Gap Score
1	Average Gap Score for Tangibles	2.070
2	Average Gap Score for Reliability	2.490
3	Average Gap Score for Responsiveness	2.800
4	Average Gap Score for Assurance	1.570
5	Average Gap Score for Empathy	3.240
	Total un-weighted score	12.170
	<b>Average un-weighted score (Total un-weighted score / 5 )</b>	<b>2.434</b>

Table 6: assigning weights:

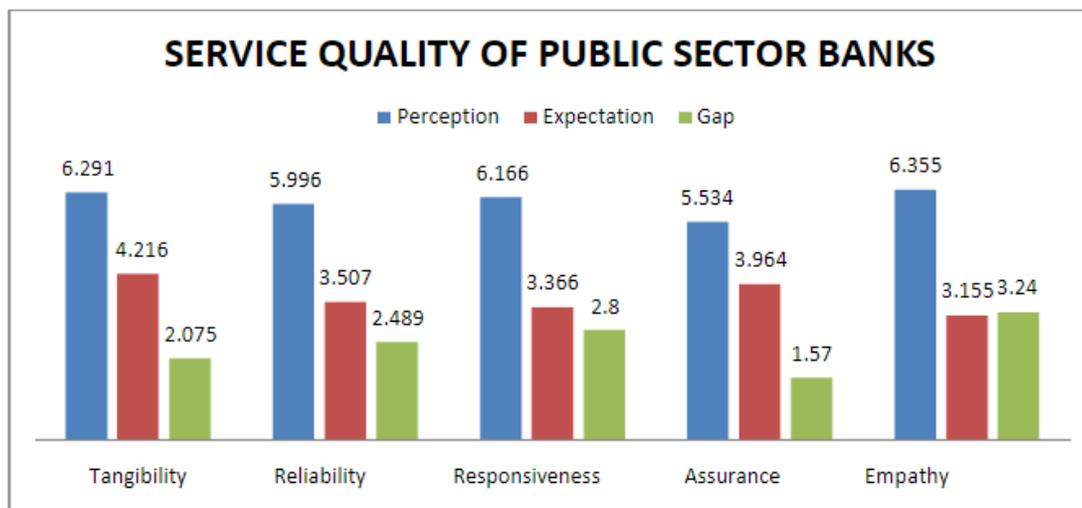
Sl. No	Dimensions	Weights
1	The appearance of banks physical facilities, equipments, personnel and communication materials	20
2	The bank's ability to perform the promised services most accurately and effectively	21
3	The banks willingness to help customers and provide prompt services	20
4	The knowledge an courtesy bank employees and their ability to convey trust and confidence	19
5	The attention and caring attitude and ability of the banks	20

The weighted score highlights the area of improvement to satisfy the customers

Table 7: Weighted Score:

Dimensions	Un-weighted score	Weights	Weighted score
Tangibles	2.070	.20	.414
Reliability	2.490	.21	.523
Responsiveness	2.800	.20	.560
Assurance	1.570	.19	.298
Empathy	3.240	.20	.648
Total weights			2.443

Fig. 1: Total average score on five dimensions in Banks in Bar diagram:



## Conclusion

Service quality should be used as a strategic tool to get a competitive advantage over the competitors. With the increasing levels of globalization of the Indian banking industry, and adoption of universal banks, the competition in the banking industry has intensified. Any where' and 'any time banking now become a reality .Recognition of service quality now acts as a competitive weapon. Analysis of gap score reveals that in banks 'Empathy' has maximum average score of 3.240 among all five dimensions. The factor analysis clearly indicates that among five dimensions 'Reliability', 'Responsiveness', 'Empathy' and 'Tangibility' are the major factors responsible for customer satisfaction which stood at 90 percent regarding the services provided by banks. Thus based on the percent level of customer satisfaction, the banks have scope to improve the quality of the service rendered to its customers to ensure their loyalty.

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